

City of Johannesburg Council 2019-05-24

COJ : MAYORAL COMMITTEE 2019-05-17

FINANCE

1 THE 2019/20 - 2021/22 MEDIUM TERM BUDGET AND RELATED DOCUMENTATION IN TERMS OF SECTION 25 (1) OF THE MFMA

1 STRATEGIC THRUST

Well Governed and Managed City.

2 OBJECTIVE

The medium-term budget and related documentation for the 2019/20 to 2021/22 financial years are submitted to Council for consideration in terms of section 25 (1) of the Municipal Finance Management Act 56 of 2003 (MFMA, the Act).

3 BACKGROUND

In terms of the Section 16 (2) of MFMA, the Mayor must table a draft annual budget at a Council meeting 90 days before the start of the budget year.

In terms of Section 87 (1) of the MFMA, Municipal Entities are required to submit their draft budgets to the parent municipality not later than 150 days before the start of the entity's financial year.

The budget process for 2019/20 commenced when with the 1st Mayoral Lekgotla that was held on the 25 - 26 October 2018. The objectives of the 1st Mayoral Lekgotla were to reach agreement on key focus areas and interventions. Departments and municipal entities (MEs) were requested to prepare budget proposals in line with the recommendations of the 1st Mayoral Lekgotla. These budget proposals were then presented to the Budget Steering Committee held on 11, 14 to 16 January 2019. The objective of the hearings was to assess the budget proposals in terms of the City's priorities.

Operating and capital budget allocations have been issued in line with the Financial Development Plan and departments and entities were requested to direct available resources towards service delivery with a particular focus on Dipheto go initiatives.

Consultation Process

In line with the Integrated Planning Process Plan adopted by Council in September 2018, the 2019/20 budget was informed by the various ward-cluster conversations held in October and November 2018. These "listening sessions" allowed the community to give input into the 2019/20 budget and IDP Review at the beginning of the planning process. The 2019/20 operating budget is the administration's strategic response to the most pressing needs of the community identified during this process.

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Subsequent to the tabling of the draft 2019/20 operating budget at Mayoral Committee and Council in March 2019, a further round of external and internal consultations were held in order to finalise the budget during April and May 2019. During this phase the, the draft budget and proposed tariffs were publicised for stakeholder and public comments. It was during this phase that the regional budget and IDP summits were held, further allowing the community to receive feedback on the issues raised during the listening sessions, as well as to comment on the 2019/20 draft budget.

4 SUMMARY

The format for adopting municipal budgets is prescribed in the Municipal Finance Management Act (MFMA), its regulations and National Treasury circulars, which require the adoption and noting of a range of issues.

The City's annual budget for 2019/20 – 2021/22 must reflect the revised Integrated Development Plan (IDP).

The following items are submitted to Council in terms of section 16 (2) of the MFMA for consideration:

- ITEM 1A: 2019/20 – 2021/22 MEDIUM-TERM OPERATING BUDGET FOR THE CITY OF JOHANNESBURG
- ITEM 1B: 2019/20 – 2021/22 MEDIUM-TERM CAPITAL BUDGET FOR THE CITY OF JOHANNESBURG
- ITEM 1C: PUBLIC CONSULTATION ON TABLED BUDGET AND BUDGETED REVENUE RAISING MEASURES FOR THE 2019/20 FINANCIAL YEAR
- ITEM 1D: DRAFT RATES POLICY AND RATES BY-LAW
- ITEM 1E: FUNDING PLAN FOR MEDIUM TERM CAPITAL BUDGET
- ITEM 1F: 2019/20 INTEGRATED DEVELOPMENT PLAN (IDP) REVIEW AND ENTITIES BUSINESS PLANS
- ITEM 1G: CITY OF JOHANNESBURG : BUILT ENVIRONMENT PERFORMANCE PLAN FOR 2019/20

The contents of the above items, their recommendations, as well as the supporting documents attached hereto.

5 POLICY IMPLICATIONS

None.

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6 LEGAL AND CONSTITUTIONAL IMPLICATIONS

This report is in compliance with the provisions of The Municipal Finance Management Act (Act 56 of 2003).

7 FINANCIAL IMPLICATIONS

In the absence of an approved budget before the start of a financial year funding will not be available to implement the budget and service delivery to the community will be affected.

8 COMMUNICATION IMPLICATIONS

In terms of Section 24 of the MFMA, the Accounting Officer must inter alia, submit the approved budget to National Treasury and Provincial Treasury immediately after the approval of the budget.

The approved budget will also be communicated to the community and various stakeholders in the manner prescribed by law.

9 OTHER BODIES/DEPARTMENTS CONSULTED

Group Legal and Contracts.

10 KEY PERFORMANCE INDICATOR

Management of the budget process in compliance with the Municipal Finance Management Act Chapter 4.

IT IS RECOMMENDED

1 That the consolidated operating revenue of R57.5 billion, operating expenditure of R56.7 billion, taxation of R35.7 million and capital grants and contributions of R3.2 billion for the City of Johannesburg for the financial year 2019/20, and the indicatives for the projected medium-term period 2020/21 to 2021/22 be approved as set out in the following attachments:

(1) The consolidated operating budget for the City, Core Administration and Municipal Entities as reflected in Annexure A, B and C.

(2) The operating revenue and expenditure budget by vote for the City as reflected in Annexure D.

That the subsidies payable by Core Administration to the following Municipal Entities be approved:

2 That the supporting information contained in the 2019/20 – 2021/22 Medium-Term Revenue and Expenditure Budget document as required in terms of

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Section 17(3) of the Municipal Finance Management Act (Act 56 of 2003) be approved in conjunction with this report.

ITEM 1B: 2019/20 – 2021/22 MEDIUM-TERM CAPITAL BUDGET FOR THE CITY OF JOHANNESBURG

1 That the capital budget of R7 754 430 000 for the year 2019/20, R8 180 340 000 for the year 2020/21 and R8 410 067 000 for the year 2021/22 of the City of Johannesburg be approved in terms of Section 16 (3) of the MFMA as set out in the following schedules:

(1) Capital budget by vote for each of the Municipal Entities and Core Administration as reflected in Annexure A.

(2) Capital budget by project for each of the Municipal Entities and Core Administration as reflected in Annexure B.

ITEM 1C: PUBLIC CONSULTATION ON TABLED BUDGET AND BUDGETED REVENUE RAISING MEASURES FOR THE 2019/20 FINANCIAL YEAR

1 That Council, after careful consideration of the comments made and in terms of Section 11 (3)(i) and 75a (1) and (2) of the Local Government: Municipal Systems Act 2000, 32 of 2000, as amended, read with Section 24(2)(c)(ii) of the Local Government: Municipal Finance Management Act, 56 of 2003 and also Section 14(1) and (2) of the Municipal Property Rates Act, 6 of 2004 hereby, approve the proposed property rates and tariffs for the 2019/20 financial year, as set out in annexure 1 to 21 to the report with effect from 1 July 2019.

2 That the approved property rates and tariffs be implemented with effect from 1 July 2019.

3 That Council note the process that City Power has embarked on to apply to the NERSA to increase its originally proposed 2019/20 tabled average tariff of 12,20% to 13,07% across all categories of customers excluding the following: residential prepaid, conventional business, LPU Time of Use (TOU) and to limit the increase to conventional business customer's energy charges (c/kWh) to 12,29% to gradually align to NERSA benchmark tariffs. Following the outcomes of this process expected before 31 May 2019, the final tariff approved by the NERSA will be implemented in the 2019/20 Financial Year. As a result further note the revised policy of the electricity tariffs proposed for implementation.

4 That, in terms of Sections 17(3)(a)(ii) and 22(a)(i) and (ii) of the Local Government Municipal Finance Management Act, 56 of 2003 and Sections 21, 21A(1) and 75A(3) of the Local Government Municipal Systems Act, 32 of 2000, as amended and also Section 14(3) of the Municipal Property Rates Act, 6 of 2004, has complied with the following legal requirements required on the City of Johannesburg's municipal manager:

“i. A display a copy of the resolution in the manner prescribed Section 75A(3)(a) of the Local Government : Municipal Systems Act, 32 of 2000, as amended;

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ii. A publication of a notice in a newspaper of general circulation in the manner prescribed section 75A(3)(b) of the Local Government : Municipal Systems Act, 32 of 2000, as amended;

iii. Through the period of public participation in the month of April 2019 has conveyed to the local community by means of radio broadcast covering the area of the City, the information contemplated in Section 75A(3)(c) of the Local Government : Municipal Systems Act, 32 of 2000, as amended;"

5 That a copy of the notice referred to in Paragraph 2(iv) above be sent forthwith to the MEC for Local Government as well as the National and Provincial Treasury in terms of Section 75A(4) of the Local Government Municipal Systems Act, 32 of 2000 as amended.

6 That a copy of place or display of the finally approved Tariff of Charges be sent forthwith to the National and Provincial Treasury in terms of Section 24(3) of the Local Government Municipal Finance Management Act, 56 of 2003.

7 That the Property Rates be published in the Provincial Gazette and be effective from 1 July 2019, and the Municipal Manager be delegated to prepare a notice within 60 days on the property rating tariff as per the amended MPRA regulations.

ITEM 1D: DRAFT RATES POLICY AND RATES BY-LAW

1 That the Council take note of the inputs received during the public participation process summarized in Paragraph 3.1.1 of the report and the details attached as Annexure C.

2 That the Council approve the proposed changes to the Rates Policy and the Rates By-Law.

3 That the Council approve the 2019/2020 Draft Rates Policy and Rates By-Law attached as Annexures A and B.

ITEM 1E: FUNDING PLAN FOR MEDIUM TERM CAPITAL BUDGET

1 Long-term Borrowing:

It is recommended that Council approve:

(1) The raising of the budgeted external long-term borrowing of R2,988,369,000; R2,750,000,000; and R2,700,000,000 for the 2019/20, 2020/21 and 2021/22 respectively per the approved budget or subsequent to Council approved adjustment/ revised budgets as may arise using either a bilateral loan, DFI funding, bond issuance or combination thereof.

(2) Establishment of committed long term facilities of up to R2,988,369,000; R2,750,000,000; and R2,700,000,000 for capex spending for 2019/20, 2020/21 and 2021/22 respectively per the approved budget or subsequent Council approved adjustment/ revised budgets as may arise.

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(3) The raising of up to R2,988,369,000; R2,750,000,000; and R2,700,000,000 for capex spending for 2019/20, 2020/21 and 2021/22 financial years or subsequent Council approved adjustment/ revised budget as may arise of bilateral loans from any or combination of the following financial institutions: ABSA Bank, Rand Merchant Bank, Nedbank, Standard Bank and Investec; DFI funding from development institutions such as: Development Bank Of Southern Africa (DBSA), Agence Francaise De Developpement (AFD), KfW, China Construction Bank; African Development Bank (AfDB), European Investment Bank (EIB), International Finance Corporation (IFC) and New Development Bank.

(4) That Council approves the pricing of no more than 300 basis points above the government benchmark bond for long term debt for financing medium term capital budget for 2019/20 to 2021/22.

2 That Council approve exploring of the long-term debt refinancing options that would not affect the City's total net borrowing and will not exceed the approved budgeted external borrowing for the 2019/20 financial year, in line with Section 46(5) of the MFMA.

3 That Council approve the utilisation of the alternative sources of funding and off-balance sheet mechanisms such as Tax Increment Financing, Land Value Capture; PPP's, Project Finance, Pension Funds, ECA's and other potential funding structures to ensure funding of approved unfunded economic capital projects in the 2019/20 financial year.

4 Short-term Borrowing:

It is recommended that Council:

(1) Approve the utilization of the standby banking facility from Standard Bank of up to R675 million that is part of the current transactional banking offering during the 2019/20 financial year in line with the current extended contract expiring on 31 December 2019 or upon any future extended date(s) should any further extension(s) of the contract be granted.

(2) Approve the utilization of up to R3 billion short term loan facility, from DBSA in 2019/20 financial year.

(3) Approve the establishment of a short term bank facility with any or combination of the following institutions: ABSA Bank, Rand Merchant Bank, Nedbank, Standard Bank and Investec, or issuance of commercial paper or utilisation of the new standby short term bank facility as part of the new transactional banking contract for a total not exceeding to R3 billion at a cost of Jibar plus up to 200 basis points in the 2019/20, 2021/21 and 2021/22 financial years to mend any short-term cash flow mismatches that may arise.

5 That Council approve the procurement of the new Kelvin Bank Guarantee to the sum of equal to four (4) times the average monthly invoice during the previous year at an annual cost not exceeding 150 basis points for a duration of up to

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12 months for each of the 2019/20 and 2020/21 financial years in line with the Power Purchase Agreement with Kelvin.

6 That in the event of a credit rating downgrade, the City Manager, the Group Chief Financial Officer and the Group Head: Treasury and Financial Strategy be authorised to adjust all the proposed pricing thresholds that are necessary to protect the interests of the City and to align to the new credit rating.

7 That the City Manager, the Group Chief Financial Officer and the Group Head: Treasury and Financial Strategy be authorised by Council to negotiate and finalise the terms and conditions of all agreements (loan contracts and Debt Capital Markets documents) and documents to give effect to the external borrowing requirements as well as for utilisation of all newly approved grant funding/ technical assistance, in consultation with the Group Legal and Contracts Department subject to such terms and conditions that are necessary to protect the interests of the City.

8 That Council authorises the City Manager to sign all long-term and short-term debt agreements and related documents, in accordance with the prescripts of Sections 45 and 46 of the MFMA.

ITEM 1F: 2019/20 INTEGRATED DEVELOPMENT PLAN (IDP) REVIEW AND ENTITIES BUSINESS PLANS

1 That the City of Johannesburg Integrated Development Plan 2019/20 Review and Business Plans be approved.

2 That a notification of the approved 2019/20 IDP review be placed in local newspapers and on the City's website, notifying the public of the approval thereof.

3 That the Gauteng MEC for CoGTA be notified of the approval of the 2019/20 IDP Review.

ITEM 1G: CITY OF JOHANNESBURG: BUILT ENVIRONMENT PERFORMANCE PLAN FOR 2019/20

That the 2019/20 Built Environment Performance Plan be approved.

(FINANCE)
(Ntuthuzelo April)
(Tel. (011) 358-3290)
(tc)

THE NEXT ITEM FOLLOWS THE ANNEXURES TO THIS ITEM